

VZCZCXRO6029
RR RUEHLMC
DE RUEHLM #0120/01 0311054
ZNR UUUUU ZZH
R 311054Z JAN 08
FM AMEMBASSY COLOMBO
TO RUEHC/SECSTATE WASHDC 7635
INFO RUCPDO/DEPT OF COMMERCE WASHDC
RUEHNE/AMEMBASSY NEW DELHI 1814
RUEHKA/AMEMBASSY DHAKA 0725
RUEHIL/AMEMBASSY ISLAMABAD 7714
RUEHKT/AMEMBASSY KATHMANDU 5895
RUEHCG/AMCONSUL CHENNAI 8319
RUEHGV/USMISSION GENEVA 2607
RUEATRS/DEPT OF TREASURY WASHDC
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION

UNCLAS SECTION 01 OF 02 COLOMBO 000120

SIPDIS

SIPDIS

STATE FOR SCA/INS

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EFIN](#) [PTER](#) [CE](#)

SUBJECT: SRI LANKA: TOURISM DOWN 12% IN 2007; COULD HAVE BEEN WORSE

Ref: A) 07 COLOMBO 1313 B) COLOMBO 47

11. Summary: The escalating ethnic conflict continues to hurt the Sri Lankan tourism industry, which experienced a 12% decrease in visitors in 2007 compared to 2006. Industry representatives have mixed assessments of the possible impact of the recent escalation of violence and the consequent bad publicity and travel warnings issued by several countries. Some, encouraged that there were 56% more visitors in December 2007 than in December 2006, expect those strong tourist numbers to continue into spring 2008. Others are less optimistic, pointing to a spate of cancellations since the government abrogated the Ceasefire Agreement on January 2. The government and private sector have undertaken new efforts to attract visitors from India, Russia, East Asia, and the Middle East in place of the traditional European market. Peace, however, remains the key factor for Sri Lanka to reap the full potential of its tourist industry. End Summary.

TOURISM REMAINS A VITAL SECTOR: FIFTH LARGEST
FOREX EARNER; MAJOR EMPLOYER

12. Tourism accounts for about two percent of Sri Lanka's gross domestic product. The sector is a key contributor to foreign exchange earnings after apparel, remittances, tea and rubber. Income generated from tourism was \$400 million in 2006, but is expected to fall to about \$360 million in 2007. Sri Lanka's hotels employ 56,000 people. The indirect contribution of tourism to the economy is also significant. The industry estimates that as many as 900,000 Sri Lankans (of a population of 20 million) are in some way dependent on tourism. They range from tourist hotel employees to shop owners, taxi drivers, handicraft producers, and their families.

2007: A SHARP DECLINE FOLLOWED BY A STRONG RECOVERY

13. The Sri Lankan tourist industry suffered a downturn in 2007 as the country's ethnic conflict escalated. Tourist arrivals declined 11.7% in 2007, to a total of 494,000 as compared to 560,000 in 2006. A breakdown of the numbers showed that, through September 2007, visitors were down 21%. The final quarter of 2007, however, recovered strongly, with tourist arrivals up by 56% in December as compared to the same month in 2006. The favorable December numbers were generated by a combination of traditional European winter high season crowds, including many visitors from Eastern Europe and Russia; and special events like the three-week tour of the British cricket team with its many loyal spectators (the "Barmy Army") in

tow.

2008: INDUSTRY OUTLOOK IS MIXED

¶4. Hoteliers speaking to the press conveyed confidence that, from January to March 2008 at least, December's high rate of arrivals would continue. They noted hotel reservations were high amidst planned events such as the annual Borah convention (an 11-day spiritual event expected to bring in 8,000 members of this India-based Muslim sect), and cultural events like the Galle Literary Festival and the Pearl Fishers opera. A board member of the Sri Lanka Hotel Association told Econoff, however, that this confidence was premature, as tour operators had cancelled over five percent of hotel reservations for the January to March 2008 time frame since abrogation of the Cease Fire Agreement on January 2, ¶2008.

¶5. According to the Association, no hotels are likely to go out of business due to the poor tourism turnout. Nor have hotels been forced to cut room rates. In fact, in December 2007, hotels in Colombo adopted a rate policy that raised their minimum room rates by almost 30% to boost revenues and raise staff wages. Nevertheless, the country's two largest resort owners, John Keells Holdings and Aitken Spence Group, are depending on their new hotels in Maldives and southern India to enable them to break even in their tourism businesses overall.

PROMOTING SRI LANKA IN NEW MARKETS

¶6. The Sri Lanka Tourism Development Authority, re-established by the new Tourism Act implemented in October 2007 (ref A), is focused

COLOMBO 00000120 002 OF 002

on promoting Sri Lanka in India, Russia, and the Middle East, as well as in new markets China, Thailand, Singapore and Malaysia. The Sri Lanka Tourism Promotion Bureau has begun to shift resources away from its traditional markets in the UK, Germany and France, as tourists from these and other European countries dropped sharply due to new advisories discouraging travel to Sri Lanka. Currently, governments of these countries advise their citizens against travel to north and east as well as to Yala National Park in the Southern Province. They have also warned about terrorist attacks and violence in other parts of the country including capital Colombo.

¶7. For India (which, despite a 17% decline since 2006, remained Sri Lanka's top market in 2007 with 106,000 arrivals), the industry is trying to promote Sri Lanka as both a cultural and a meetings and conventions destination. Hoping to capture tourists from the Middle East and Eastern Europe, Sri Lanka Tourism plans to hire public relations and marketing personnel in Dubai and Moscow. Sri Lanka Tourism is also teaming up with the private sector to create discount tourist packages and airline promotion events, as well as inviting journalists to visit Sri Lanka.

¶8. The impending pullout of Emirates Airlines' management of Sri Lankan airlines (ref B) is not expected to have a drastic impact on tourist arrivals, according to a Sri Lanka Hotels Association official, because the two airlines say they will continue to run code shares and coordinate their routes.

COMMENT: IN PEACE LIES POTENTIAL

¶9. As the following chart indicates, Sri Lanka's annual tourist visitor numbers have been in the range of half a million in each of the years since the 2002 Ceasefire Agreement:

2007	: 494,000
2006	: 559,600 (violence resumed in April)
2005	: 549,300 (post-tsunami)
2004	: 566,200
2003	: 500,600
2002	: 393,000 (Ceasefire Agreement in February)

About 407,000 tourists arrived in Sri Lanka in 1982, just before the start of conflict. During the 1983-2001 conflict period, arrivals averaged in the range of 300,000 per year. According to a paper presented at a counter terrorism conference in Colombo in 2007, Sri Lanka lost over 11 million tourists and about \$6 billion in tourism income in the two decades since 1983 as a result of the conflict. The paper supposed 6% annual tourism growth in the absence of the conflict. In this case, arrivals could have reached 1.47 million in 2004 -- over two and half times the 566,200 recorded that year. Thus, in tourism as in so many other aspects of the economy in the context of the conflict, the cost for Sri Lanka has been one of greatly unrealized potential.

BLAKE